BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the	)	**Docket No. U-100522**
	)	
Conservation Incentive Inquiry	)	**NW Energy Coalition's**
	)	**Additional Comments**
	)	
	)	**July 14, 2010**
	)	

In accordance with the July 2 Notice of Opportunity to File Written Comments, the NW Energy Coalition ("Coalition") respectfully submits the following additional comments in this docket.

In its Notice, the Commission requests that interested persons indicate if they support, oppose or are neutral to four specific policy options. Further, persons should distinguish between gas and electric utilities as applicable for each option. We consider each of the four options to be in the category of potential disincentive-removal mechanisms.

First, it is important to note that disincentive-removal mechanisms are not one-size-fits-all in nature. Specific proposals need to be evaluated on a case-by-case basis to determine what makes the most sense for a particular utility at a particular time, and whether the mechanism being considered ultimately will achieve its intended goal.

At the beginning of this proceeding, the Coalition submitted a set of principles adopted by consensus resolution of our Board in November 2009.[1] That resolution was framed in the context of advocating for a policy package that promotes acquisition of all cost-effective energy efficiency in the electric and natural gas sectors at the lowest lifecycle cost to consumers. Instead of advocating for any particular type of disincentive-removal mechanism, the Coalition's Board focused on setting standards for determining when Coalition staff may be able to support a specific proposal. Some of those principles are highlighted here:

- Any mechanism should be linked to a commitment from the utility to pursue significant energy efficiency savings.
- Utilities should not be disadvantaged by energy efficiency achievements regardless of whether they are accomplished through end-use consumer programs, codes, standards or markets.
- As it removes the disincentive to decrease sales, any mechanism should also reduce the incentive to maximize sales as a way to increase profit.
- Any mechanism should not erode a utility's incentive to control costs or to improve operational efficiency.
- The mechanism should not result in an unwarranted shift in costs between customer classes or to low-income consumers.
- The mechanism should be designed to limit excess year-to-year fluctuations in rates.

[1] Attachment A to the Coalition's Statement of Issues, submitted April 23, 2010.

- Once in place, the mechanism should strive to be understandable and impose low administrative cost for the regulatory agency, the utility and public interest advocates.
- Creation of a disincentive removal mechanism should include detailed analysis of the positive and/or negative impacts of that mechanism on low-income consumers; analysis indicating an "average" condition for residential consumers is not sufficient. Implementing such a mechanism should not increase the difficulty for low-income households to access utility services they can afford.
- Any mechanism that is found to significantly increase or decrease shareholder risk should consider including an appropriate increase or decrease in the allowed shareholder return.
- An independent evaluation should be conducted to examine the effectiveness of a disincentive removal mechanism.

Because there is no one-size-fits-all design, the Coalition has advocated in this proceeding for the Commission to adopt similar principles that will help guide utilities and clarify expectations for other parties regarding incentives and removal of disincentives. In responding to the first two policy options below, we focus on some of the criteria we would recommend that the Commission consider in judging a specific proposed mechanism, as well as some of the advantages and disadvantages of each mechanism.

Full decoupling, including all declines and all increases in sales from any source.

Full decoupling would balance lost margins with found margins, be relatively simple to calculate and implement, and allow for adjustments to go up or down. Generally, the Coalition has supported decoupling mechanisms with specific conditions based on the principles adopted by our Board last year. These conditions include, among others, (1) a commitment from the utility to pursue significant energy efficiency savings, (2) a cap limiting year-to-year fluctuations in rates, (3) protections against unwarranted cost-shifting, and (4) analysis of impacts on low-income customers. With these conditions, the mechanism can work for both the utility and its customers.

Lost margin adjustment for declines in sales due only to company sponsored conservation efforts.

This approach limits utility recovery to margins lost solely as a result of measurable energy efficiency programs and not business cycle or other variations. However, the recovery of lost margins in this fashion has several potential disadvantages. A lost margin recovery mechanism:

- Typically only addresses savings due to measurable utility-funded programs, not utility-funded information, education or other difficult to measure programs and not codes, standards, government or consumer-funded measures. This biases the utility in favor of utility-funded efficiency and potentially makes it less willing to support these other actions.
- Is not designed to limit over-recovery due to increased sales (i.e., it is inherently asymmetrical because it does not balance “lost” margins with “found” margins).
- Unless reset in frequent rate cases, can yield increasingly significant rate impacts because each year’s savings and lost revenues would add to the previous year’s total, and each stream of savings and payments could persist over decades, with steadily escalating financial

consequences.
- Promotes contentious arguments regarding "free riders," persistence rates, etc., that will lead to very high verification costs.

Generally, the Coalition has not embraced lost margin recovery mechanisms. When lost margin recovery is proposed, we focus on ensuring precise measurement and verification to prevent over- or under-recovery; investigating ways to ensure a utility is not discouraged from educating its customers about conservation or supporting non-utility funded efficiency activities such as codes and standards; and ensuring low-income customers are protected.

Attrition adjustment based on the results of an attrition study.

The Coalition does not have a specific policy position regarding attrition studies or related adjustments. We would apply our basic Board-approved principles to consideration of any such proposal.

An independent conservation provider (*i.e.*, similar in concept to the Energy Trust of Oregon).

As discussed in our June 18 Reply (at pp. 1-2), the Coalition would support consideration of an independent conservation provider for Washington's electric and/or gas utilities if the utilities do not deliver on their commitments to significantly increase energy savings from their conservation efforts. Oregon, Vermont, Wisconsin, Hawaii, New York, and Washington, D.C. have adopted this approach for at least some of the conservation services provided to customers. And of course Washington electricity customers already fund regional market transformation efforts through the Northwest Energy Efficiency Alliance.

The Coalition advocated for the creation of the Energy Trust of Oregon (ETO) and strongly supports its mission and activities. However, transferring energy efficiency program implementation responsibilities from the IOUs to an independent third party does not obviate the need for mechanisms to address utility disincentives to conservation. The experience in Oregon shows that active utility cooperation and support for ETO activities is critical to efficient delivery of programs.

Creation of a third party administrator alone does not ultimately move IOUs any closer to a business model where company financial interests are aligned with customer and societal interests in maximizing energy efficiency. In 2009, the Oregon Public Utility Commission (OPUC) provided the following rationale for its decision to authorize decoupling for Portland General Electric (PGE), even though the ETO provides energy efficiency services for PGE's customers.

> [W]hile the parties do not disagree that relying on volumetric charges to recover fixed costs creates a disincentive to promote energy efficiency, they contend that decoupling is unnecessary because, with the ETO running energy efficiency programs in PGE's service territory, the Company has limited influence over customers' energy efficiency decisions. We find this position unpersuasive, because PGE does have the ability to influence individual customers through direct contacts and referrals to the ETO. PGE is also able to

> affect usage in other ways, including how aggressively it pursues distributed generation and on-site solar installations; whether it supports improvements to building codes; or whether it provides timely, useful information to customers on energy efficiency programs.[2]

Regardless of who administers energy efficiency programs, over the coming years, Washington customers are expected to meet more and more of their energy-service needs through energy efficiency rather than supply. In order to meet this objective, we recommend the Commission take steps to make Washington utilities financially neutral to the impacts of energy conservation and seek to remove utility motivations to increase sales per customer between rate cases.

Conclusion

Again, the Coalition appreciates the opportunity to participate in this proceeding. We hope the Commission moves forward with issuing specific guidelines of general applicability related to disincentive-removal mechanisms, and preferably also for incentives to aggressively pursue energy efficiency.

[2] OPUC Order No. 09-020, Docket UE 197, Jan. 22, 2009, at 27